Confederation Life Insurance Company Annual Report 1980

1980 Achievements at a glance

Stated in 000's of Dollars	**1980**	1979 (Restated)
New Business – Premiums		
Individual	$ **38,194**	$ 28,841
Group	**109,639**	116,086
Business in Force		
Individual Life (Amounts of Insurance)	**7,708,502**	7,104,290
Group Life (Amounts of Insurance)	**26,988,816**	22,354,014
Health (Premiums in Force)	**270,187**	231,158
Annuities and Pensions (Funds Held)	**1,478,145**	1,273,814
Policyholder Benefits Paid	**494,462**	424,062
Operating Income	**35,834**	27,269
Surplus and Investment and Contingency Reserve	**224,947**	180,888
Assets	**3,163,835**	2,719,442
Net Rate of Interest Earned	**9.88%**	9.40%

Confederation Life Insurance Company is an international company with offices in Canada, the United States, the Caribbean and the United Kingdom. Founded in 1871, it is a mutual company owned by its policyholders.

321 Bloor Street East, Toronto, Canada M4W 1H1

Pour recevoir ce Rapport annuel en français, il suffit d'en faire la demande.

President's Remarks

Many patterns of activity converged in 1980 to make it a year of unusual progress for Confederation Life. The highlights of these activities are described in the reports of the three regional Vice-Presidents and the Vice-President, Investments in the pages that follow. The Report of the Directors to the Policyholders, beginning on Page 8, presents the combined picture of our overall sales and insurance in force figures along with the most significant items from the financial statements. Although inflation, volatile investment markets and extraordinarily high interest rates cause some to view the environment for the life insurance business as turbulent, these reports show that Confederation Life has enjoyed continued real growth in almost all areas.

An increase in our sales manpower is one of the significant patterns of the past year. In our individual marketing organization the number of people in the field selling Confederation Life products now totals 965, an increase of 128 during the year. Perhaps of greater importance is the increase in productivity of these men and women, as measured by their sales success.

The redesign of individual products to meet changing needs has received special attention and has been a major factor contributing to our better-than-industry sales increases.

In the North American markets, group life, health and pensions form a large part of our business. During the year total premium income from these operations increased 18% to almost $500 million.

The Consolidated Statement of Operations shows a continued picture of financial strength, ensuring the Company's ability to meet its obligations, increase benefits to policyholders and expand its capacity to assume risks. Contributing to higher operating income were: improved mortality in many lines, higher interest rates and increased market values for common stocks (which, under the 1978 accounting principles prescribed by the Department of Insurance of Canada, are partially brought into the income statement). Offsetting these factors were the inflationary increases in operating expenses and the even

John A. Rhind, President and Chief Executive Officer (centre), *J. Page R. Wadsworth, Chairman of the Board* (right), *speaking to P. D. Burns, Executive Vice-President.*

greater rate of increase in health care expenses which resulted in losses in our health insurance operations, an area of business contributing a major share of our premium income. Overall, operating income for 1980 was $35.8 million compared to $27.3 million in 1979.

Reflecting the improved pattern of financial results, increases in policyholder dividends were once again made on a wide range of existing blocks of business.

In December, the Company announced an extraordinary plan to increase the face value of approximately 42,000 Canadian and 30,000 United Kingdom individual life and endowment participating policies at no cost to the policyholders, an action which is virtually unparalleled in the Canadian life insurance industry. Increases in the death benefits for most of the Canadian policies affected were 30% while U.K. increases ranged up to 17%. The total amount of new insurance protection provided by this enhancement was $17 million in Canada and £9 million in the United Kingdom. These are older blocks of policies. Most of the affected Canadian policyholders have maintained their policies for more than 25 years. This action was taken as a result of a study, which we have been conducting for some time, of our experience with all our older blocks of business.

We believe that, in the case of these older series of policies, which have had their face values eroded by inflation, the most effective benefit, in addition to their regular increasing level of dividends, is a lump sum increase in the death benefit.

The cost to the Company of establishing the required reserves for these increased death benefits is $8.6 million. This amount has been charged as an "Unusual and Extraordinary" item in the 1980 Statement of Operations. Letters of appreciation from policyholders have been gratifying and from a human interest point of view, it is tempting to fill this page with quotations such as:

"It renews my faith in mankind which means much more to me than money."

"...impressed with your Company's move. It is unique: it is almost gigantic."

"...a very clear expression that big business cares."

"We cannot promise you more business as we are now past 91, but we can say 'thank you'."

"It is evident that we 'out here' are something more than shadowy figures behind the policy numbers in the files."

Fulfilling our commitment to treat all groups of participating policyholders in an equitable manner, record increases in dividend scales for a different range of Canadian policies announced in 1979, and a similar increase for a large number of U.S. policyholders was introduced in 1980.

In a report such as this which deals with our business in several different countries, general comments on the overall life insurance industry scene are limited by regulatory, tax, marketing and economic differences which combine to create different environments. Common elements in all these markets are the concern to preserve capital values in the face of inflation and the twin problem of high interest rates on funds currently available for investment as compared to the return on funds which have been invested in earlier times.

In Canada we have seen a high level of savings influenced by tax incentives which encourage the build-up of Registered Retirement Savings Plans and the purchase of single premium immediate annuities. The latter may be in the form of transfers from pension and retirement funds, or income-averaging annuities. Premiums from deferred and immediate annuities now comprise a major part of Confederation Life's total new premium income. In designing savings plans for this market we have even gone as far as creating a Short Term Accumulator which provides a 91-day resting place for capital being held for the subsequent purchase of a deferred annuity savings-type plan, either registered or non-registered. Earlier generations of life insurance people would have been amazed at such a digression from the long term concepts of our industry.

In the United States, the major concerns of the industry centre around the question of maintaining asset liquidity and the need for updating life insurance regulations to permit more flexibility in policy loan interest rates. The likelihood of national health insurance was a subject which received much attention but has diminished with a changed political environment.

In Britain, a factor which has long been dominant in the market, is the tax benefit granted as an offset to the payment of savings-type premiums. Thus, despite inflation rates which have been higher than in North America, the product emphasis is on the permanent savings-type policies such as whole life, endowment and annuity. In the United Kingdom, the influence of inflation is demonstrated by the demand for "linked policies" – insurance plans which are partially or wholly linked to the performance of investment funds and have limited guarantees. Although less than 40% of the premiums from our U.K. insurance in force is from linked policies, approximately 60% of the premiums from 1980 new business was of this type.

A subject of concern which seems to be common to all countries in which we operate is the problem of providing adequate incomes for the elderly. The key question is how much retirement income should be provided by government social insurance and how much by private pension plans. The large number of government-commissioned studies testify to the widespread attention being paid to this subject. Reports from these studies document the problems of inadequate coverage, especially for single women, lack of protection from inflation, vesting problems and the need for portability. Though there is pressure from some areas to extend government-sponsored plans, it is generally recognized that the burden these government programs will be placing on the working population in the decades ahead, to say nothing of the current unsound financial condition of such plans in some countries, makes it desirable to find alternatives in the private sector. This is a challenge to be faced by providers of corporate pension plans. Life insurance industry representatives in Canada are working hard to produce positive suggestions to government decision makers to assist in designing a practical combination of public and private pension arrangements.

There are shifting patterns in the market for life and health insurance and pension products. Changes provide opportunities for those who have the products, the sales organization and the qualified staff to meet the new demands of the marketplace. No matter what may occur by way of government social insurance or economic dislocation, people will always have a need for personal plans to provide financial protection for disability, sickness, retirement and death. Our role at Confederation Life will continue to be one of designing and marketing plans to meet these needs.

JARhind

John A. Rhind
President

Canada

Sales of all Canadian insurance lines were buoyant during 1980. Sales of individual insurance, on an annual premium basis, were up 15% over 1979, surpassing the performance of the industry. A significant factor was a new product line which contributed to the increase in sales of new life insurance.

A recruiting and training program produced many new agents and sales managers, as well as better retention of and higher production from the sales force. While many sales offices surpassed their objectives, the St. John's, Newfoundland branch won the President's Trophy for excellence in agency building in Canada for the third consecutive year.

Growth in the Group operation has continued with premium income from Life and Health policies up 19%. Premiums and deposits under Group Pension plans were up 14%.

A coast-to-coast tele-processing link for the validation and payment of claims to Group beneficiaries was completed with the opening of an on-line claims service in Halifax, N.S. The number of claims has grown some 30% per year for the past five years. Last year, more than one million claims were paid to Group Life and Health beneficiaries in Canada.

With Single Premiums in excess of $39 million, sales of Single Premium Immediate Annuity contracts were 50% higher than last year. These contracts arise from both Group and Individual sources and are primarily made up of funds accumulated under registered contracts being applied to purchase annuities on retirement and of premiums for Income-Averaging Annuity contracts.

Satisfactory financial results on our Canadian operations were achieved during the year. The Individual line benefited from highly favourable mortality experience. Despite being subjected to substantial inflationary cost pressures, and to modest losses in our Group Health operation, the Group Line overall continued to develop acceptable profit levels.

Confederation Life is a major group insurance carrier. Specializing in large cases, the Company has in force 54 group insurance policies with annual premiums of $1,000,000 or more. Displaying the members' recruitment material for the Public Service Alliance of Canada Group Insurance Plan are Tricia Biglow and Linda Van Dusen of the Group Issue, Canada Department.

Group Accidental Death claims were unusually high, due in large measure to the tragic fire at Chapais which occurred just minutes into the new year. Seldom has the social benefit of life insurance been so evident as in our payment of $595,000 to assist 21 beneficiaries in rebuilding their lives.

A matter of concern is the impact of inflation on policyholders. For this reason our Individual products emphasize maximum protection value for each premium dollar. But it is the older, long-duration policyholder who has been most affected by the erosion of the real value of his policy.

Accordingly, Confederation Life took the unprecedented step of increasing the death benefit on some 42,000 of its oldest Canadian policies, with no additional charge to the policyholders. It was provided in addition to normal dividend payments. The increase in death benefits ranged between 10% and 30% of the amount of the original policy.

The Accumulator series of investment contracts was introduced in 1980 to provide additional flexibility for clients to meet their investment requirements. These feature no-load investments, optionally guaranteed for terms ranging from 90 days to five years.

1980 was a good year in virtually all respects in our Canadian operation. The results achieved have provided all of us, both in Home Office and in our Field operation, with confidence that we can meet the challenges ahead and continue to provide the type and level of service to our clients that will keep us a leader in the Canadian insurance industry.

John B. Heard
Vice-President
Canadian Operations

United States and Caribbean

With less than favourable economic conditions throughout the region, 1980 was nevertheless a year of outstanding growth. Total premium income for both Individual and Group operations rose 21% to $150 million (U.S.).

In the United States, individual premium income grew by 17%. New premium income in Individual sales increased by 57%; the number of general agents under contract rose from 217 to 278, and new policies issued grew at a rate of 21% – tangible evidence of increasing acceptance of our products by both the field organization and their clients. In 1980, Confederation Life policies which are directed towards the corporate and estate markets attained an average face value exceeding $90,000 (U.S.).

The field organization made significant contributions to product design innovations scheduled for introduction early in 1981. These new products will enable the company to maintain its leadership in this important market.

Because of the continuing excellent financial results achieved in 1980, the Board of Directors has again approved an increase in the dividend scales for certain older blocks of policies.

The 15% increase in sales in Barbados was another top performance by that fine organization.

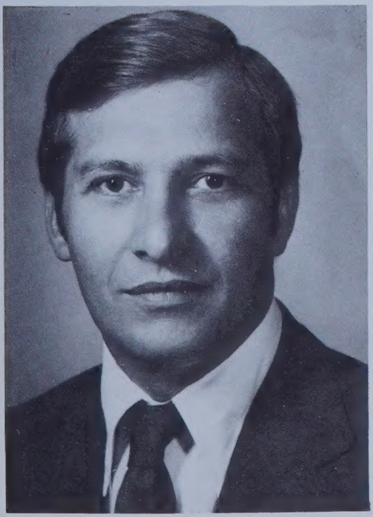
Our General Agency in the Dominican Republic made an outstanding achievement in 1980. Under the leadership of Lic. Moises Franco L., this organization achieved the highest ranking of all the Company's international sales offices.

Group Life and Health premium income rose 26% over the previous year, exceeding planned growth by a substantial margin, demonstrating the confidence of the corporate buyer in our products and services.

Increasing costs are a continual concern, particularly for claims service. As a result, the Company plans to introduce an automated claims system designed to increase productivity and improve customer service.

The Company continued its program of expansion throughout the United States with the opening of a new sales office in St. Louis, Mo., with initial results well ahead of expectations. Plans call for the opening of an additional six offices in the U.S. by the end of the decade.

P. W. Lloyd,
Vice-President,
U.S. & Caribbean Operations.



Vincent Passananti
General Agent, Providence
Rhode Island

The Company has experienced outstanding growth in its United States operations. In 1980 the number of General Agents under contract, marketing and servicing our individual insurance products, increased from 217 to 278. With the opening of a Group Sales Office in St. Louis, the Company now has nine sales offices and eight claims offices servicing our expanding U.S. group business.

John Cruickshank
Group Manager, St. Louis
Group Office

United Kingdom

The Advanced Marketing Seminar is an important part of sales development in the United Kingdom. Experienced life underwriters are brought together to encourage a full exchange of views both in and outside of the conference room. The theme of this seminar was directed specifically at the pension and single premium markets and the marketing of Confederation Life's Staffguard, Personal Pension and Capital Protected Plans.

The current recession in the United Kingdom began to affect the life insurance industry about mid-year with a substantial decline in the rate of new business. As a result, the industry ended the year with disappointing growth in sales over 1979.

Despite the difficult environment, Confederation Life had a successful year. Individual insurance sales of over £5 million in annualized new premiums represented a 19% increase over the prior year, substantially ahead of an inflation rate of 15%. Single premiums were double the expected level for the year. An excellent persistency rate of 91% reflected sound selling practices and a high standard of service to policyowners.

London Central Branch occupied a familiar place as the leading U.K. office and captured second place company-wide, with Sheffield and Birmingham North as runners-up. The U.K. Trophy for best all-round performance was won by Sheffield and runners-up were Birmingham South and Liverpool.

The U.K. region was pleased to note that 17 of its branches were amongst the Company's top 30 offices in Individual production for the year.

Total Individual insurance premium income of more than £25 million was 22% higher than in 1979. Financial results were satisfactory.

One of the most significant achievements of the year towards ensuring future growth was the enlargement of our full-time sales force from 259 to 303. This expansion programme will continue to receive high priority.

Our relatively small group pensions operation had a record year against its objectives in sales, premium income and profit.

During the year a number of administrative procedures were introduced designed to enhance the speed and quality of service provided to our policyholders. Continued emphasis was given to internal communications and training; in addition to a Branch Managers' meeting in January, and a Chief Office Managers' meeting in October, a conference was held for Branch Office Secretaries in December.

At the year-end, total funds under management in the U.K. had a market value of £126 million, up from £99 million a year ago. On page 7 in this report comment is made on a highly successful year in our investment operations.

Consistent with the aims of a mutual life company, a special increase in the death and maturity benefit was declared on some 30,000 policies, providing the policyowners with an additional £9 million of protection.

It seems likely that the life insurance industry in the United Kingdom will continue to face difficult market conditions through much, if not all, of 1981. The momentum we have maintained in 1980 will give us an advantage in entering this period.

Paul Wortman

Paul Wortman
Vice-President and General Manager for the United Kingdom

Investments

During 1980, total assets of Confederation Life increased by $444.4 million to total $3.16 billion. The investment of these funds was the responsibility of investment teams located in Home Office, Property Branches across Canada and the Chief Office, United Kingdom.

In Canada, the 1980 financial market environment was characterized by extreme volatility of interest rates. The Prime Rate ended the year at 18.25%, up from 15% at the end of 1979. The McLeod Young Weir 50 Bond Index, a key indicator of long term interest rates, increased 1.35% to 13.21%. The volatile interest rate climate created significant bond trading opportunities. On the other hand, when mortgage rates reached unprecedented high levels, developers became increasingly reluctant to finance projects at high rates and mortgage lending activity declined. The Toronto Stock Exchange 300 Index closed at 2,269, up 25.2%, the sixth consecutive year the T.S.E. Index closed the year at a higher level, making it increasingly difficult to find reasonably priced common stock opportunities.

Investment policy for new money for the Canadian general insurance funds continued to emphasize mortgages. Despite a difficult environment, we approved a record $192 million of mortgage loans for both general and segregated funds at an average rate of 13.30%.

The market value of our Canadian holdings of common stocks, excluding segregated funds, was $126 million, up from $85 million at the end of 1979.

During the year we participated in the formation of a new real estate company, Dover Park Development Corporation, Ltd. based in Calgary, Alta. With a 20% ownership interest, Confederation Life is now able to play an even more active role in Canada's western provinces.

Our investment policy for the majority of our group segregated pension clients remained unchanged with a cash flow allocation of 40% into common stocks (10% U.S.) and 60% into fixed income investments. Pension assets under management increased from $650 million to $880 million.

The United States also experienced a volatile interest rate environment in 1980. The Prime Rate declined from 15.25% at the end of 1979 to 10.75% in August, before rising to 21.5% and closing the year at 20.5%. The Salomon AA new issue utility yields index, a key indicator of long term interest rates, increased from 11.85% at the end of 1979 to 15.5% before closing the year at 14.5%. Unfortunately, the high levels of interest rates in the U.S. severely curtailed the amount of mortgages we were able to place. The Standard & Poor's Stock Market Index closed the year at 135.76, up 25.8%, the first time since 1976 that the U.S. stock market has equalled or outperformed its Canadian counterpart.

Our investment policy for new money in the U.S. general insurance funds emphasized high yield fixed income investments. In order to take advantage of high rates and in the absence of traditional mortgage business, we purchased $7 million (U.S.) in securities issued by the Government National Mortgage Association.

Because of the relatively large number of opportunities available, investment policy emphasized U.S. common stocks. The market value of our U.S. holdings of common stocks, excluding segregated funds, was approximately $86 million, (U.S.) up from $43 million (U.S.) at the end of 1979.

In the United Kingdom, interest rates were relatively stable in comparison to their North American counterparts. The Minimum Lending Rate ended the year at 14.00%, down from 17.00% at the end of 1979. The yield on British Government medium coupon long term bonds declined from 14.40% to 13.50%.

The U.K. stock market, as measured by the Financial Times Actuaries All Share Index, increased by 27.2% to close at 292.22.

Our investment policy for the U.K. general insurance funds continued to emphasize government securities in the absence of new issues of corporate securities. There was a distinct pick-up in mortgage inquiries during 1980.

Our policy for U.K. unit-linked funds provided a cash flow allocation of 40% in bonds, 45% in common stock and 15% in real estate. The results for the U.K. segregated common stock and real estate funds were exceptional. Our relatively heavy emphasis on equities (common stocks and real estate) enabled our managed funds to show excellent results.

The pooled real estate fund ranked first out of 30 funds on the Savings Market Survey for the year ended September 30, 1980. Confederation Life Equity, which invests largely in Confederation Growth Units, had the distinction of heading the 3-year performance table in the Savings Market Survey for the period ended September 30, 1980. The pooled bond fund ranked first out of eleven funds for the five year period on the same survey.

Backed by a strong research team, the Investment Organization is proud of its contribution to the financial security of Confederation Life policyholders.

John H. Watson

John H. Watson
Vice-President
Investments

Report of the Directors to the Policyholders

Your Directors are pleased to report that an exceptionally strong performance by the Company's sales force and staff in all regions has resulted in a record year in 1980. Growth in almost all areas, in agency appointments, in sales and in benefits paid, has contributed to an impressive beginning to the 1980's.

Sales of Individual Insurance amounted to $38.2 million of new annual premiums, an increase of 32.4% over 1979. Of this amount, Canadian business accounts for $9.2 million, the United States and Caribbean $16.5 million, and the United Kingdom $12.5 million.

Group sales totalled $109.6 million of premiums. This total is made up of $12.9 million Group Life, $56.2 million Group Health and $40.5 million Group Pensions.

Individual Life Insurance in force rose from $7.1 billion of face amount to $7.7 billion while Group Life increased from $22.4 billion to $27.0 billion. Health insurance premiums in force rose from $231.2 million to $270.2 million. Funds held for annuities and corporate pension plans rose from $1.3 billion to $1.5 billion.

Total income from all sources passed the one billion dollar mark reaching $1,061.7 million. Of this amount, $746.6 million represented premiums from policyholders, and $267.0 million was net investment income. Included in this latter amount is $5.0 million of amortization of net realized and unrealized capital gains as detailed in Note 2 of the Notes to the Financial Statements. In addition, the net market value gain on segregated investments was $48.1 million.

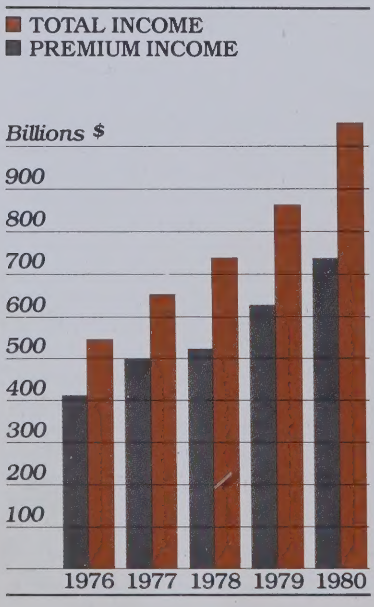
Benefits paid to policyholders and their beneficiaries increased by 16.6% and totalled $494.5 million. Although mortality experience was generally lower than expected, death claims rose from $78.3 million to $84.7 million. Disability and health benefits increased from $165.0 million to $209.2 million. Dividends paid to Individual policyholders increased from $25.4 million to $26.4 million.

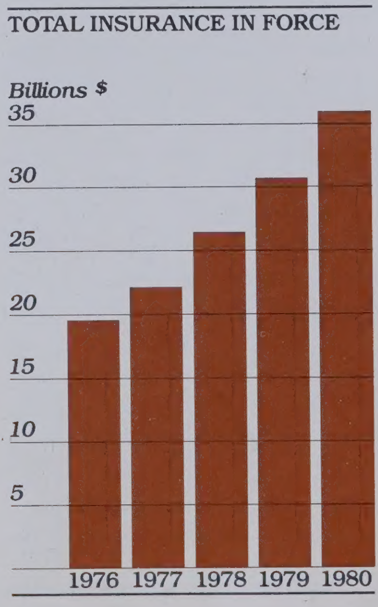
Expenses of all types rose by nearly 23% to reach $110.3 million. This sizable increase is consistent with the level and nature of the growth achieved. Premium and income taxes were $19.9 million.

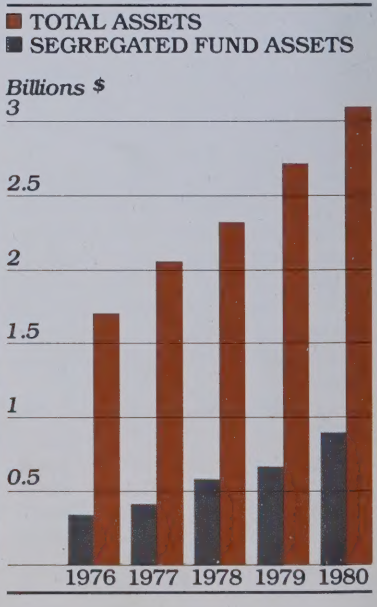
After providing for corporate taxes, Operating Income was $35.8 million compared to $27.3 million in 1979. Included under "Unusual and Extraordinary Income (Expenses)" are the cost of the benefit enhancement on certain older policies, the tax recoveries relating to this cost, and a variety of other items that in the past would typically have been shown in the Statement of Surplus. A description of these is contained in Note 3 and for the current year comprise real estate gains, a small loss on health account investments, and a recovery of prior year taxes.

General funds, that is, assets exclusive of segregated funds, stand at $2,262.1 million, an increase during 1980 of $246.2 million. Mortgage loans in the general funds increased by $130.5 million to $1,009.4 million, bond holdings rose by $41.6 million to $656.2 million, and the book value of stocks rose by $54.6 million to $178.0 million. Policy loans increased by $29.2 million to $190.4 million. The net rate of interest earned on general fund assets, after deducting investment expenses, rose to 9.88% from 9.40%. Segregated funds, which are shown at market value, rose by 28.2% to $901.8 million, bringing total assets past the three billion dollar level to $3,163.8 million.

In the Liabilities and Surplus side of the Consolidated Balance







Sheet – as explained in Note 1 (iv), capital gains and losses on bonds, mortgages and stocks are amortized and brought into income in future years. For 1980, this gives rise to a Deferred Net Capital Gain of $12.3 million being established as a Balance Sheet Liability, as is detailed in Note 4.

The mandatory Additional Reserve Required by Law decreased by $10.5 million to $69.4 million. The Investment and Contingency Reserve of $110.0 million and Surplus of $114.9 million totalled $224.9 million, an increase of $44.1 milion.

A number of changes as described in Note 6 have been made this year in the form of presentation adopted in the financial statements. These changes have generally been designed to reflect the current nature of our business, and to utilize up-to-date reporting practices. For example, in the Statement of Operations, premium income is now split into Life, Health, and Annuities and Pensions, reflecting our three major product lines. Policyholder benefits are now split into the major categories of benefit payments. The notes to the financial statements, while incorporating information essentially similar to that shown in prior years, have been reorganized.

This year, the Company made a change in the method of reporting income taxes, as described in Note 1 (vi). These are now calculated on the tax allocation method, whereby all income taxes related to transactions reflected in the Statement of Operations are included in the current year, even though a portion of these taxes may not in fact be payable until a later time. The related liability for future taxes, after discounting for interest, is reflected in the balance sheet in the manner described in Note 1(vi).

Your directors record their regret that Sir Ralph Perring will not be eligible for re-election to the Board at the Annual Meeting on February 20th, 1981 because he has reached the mandatory retirement age for directors under the provisions of the Canadian and British Insurance Companies Act. Sir Ralph joined our Board in 1968 and not only participated in a significant way in our overall deliberations but made a unique contribution from his United Kingdom perspective. His advice and counsel will be missed.

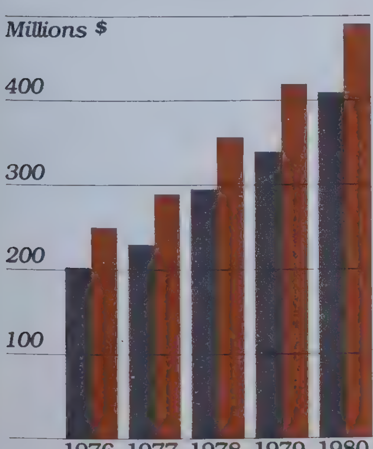
Sir David Nicolson will be nominated at the Annual Meeting for membership on the Board. Sir David will bring a wealth of experience gained through his business activities in the United Kingdom and North America.

It is our pleasure to express, on behalf of the Directors, our sincere appreciation to all members of the staff and those in the field for their outstanding contribution to the success of the Company in 1980.

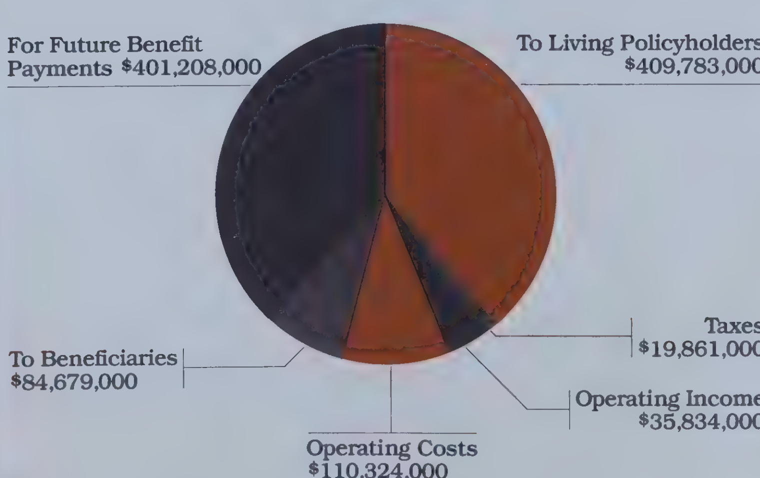
J. Page R. Wadsworth
Chairman of the Board

John A. Rhind
President and
Chief Executive Officer

TOTAL PAYMENTS TO POLICYHOLDERS AND BENEFICIARIES
TOTAL PAYMENTS TO LIVING POLICYHOLDERS



DISTRIBUTION OF INCOME



Consolidated Statement of Operations
for the year ended December 31, 1980

Stated in 000's of Dollars	1980	1979 (Restated – Note 6)
Premiums		
Life	$ **244,560**	$229,628
Health	**268,737**	212,219
Annuities and Pensions	**233,314**	193,217
Net Investment Income (Note 2)	**266,970**	218,135
Net Market Value Gain on Segregated Investments	**48,108**	21,221
	1,061,689	874,420
Policyholder Benefits arising from		
Death Claims	$ **84,679**	$ 78,287
Disability and Health Claims	**209,209**	164,974
Annuity and Pension Payments	**45,114**	38,920
Other Policy Payments	**109,677**	91,250
Dividends on Individual Policies	**26,391**	25,399
Experience Refunds on Group Policies	**19,392**	25,232
Increase in Policy Reserves (Notes 1(v) and (vi))	**202,993**	182,315
Increase in Segregated Investment Funds	**198,215**	133,064
Operating Expenses	**110,324**	89,764
Premium and Income Taxes (Note 1(vi))	**19,861**	17,946
	1,025,855	847,151
Operating Income	**35,834**	27,269
Unusual and Extraordinary Income (Expenses)		
Cost of Benefit Enhancements on Certain Older Participating Policies	**(8,644)**	Nil
Tax Recoveries Related to Above Item	**3,183**	Nil
Other Items (Note 3)	**3,206**	16,711
Net Income	$ **33,579**	$ 43,980

See Notes – Pages 12 and 13.

Consolidated Statement of Surplus
for the year ended December 31, 1980

Stated in 000's of Dollars	1980	1979 (Restated – Note 6)
Balance, Beginning of Year as previously reported	**$103,738**	$ 85,429
adjustments to reflect change in accounting (Note 6(i))	**(8,850)**	(3,904)
as restated	**94,888**	81,525
Net Income	**33,579**	43,980
Reduction in Policy Reserves	**Nil**	25,423
Transfer from (to) Additional Reserve Required by Law	**10,480**	(21,040)
Transfer to Investment and Contingency Reserve	**(24,000)**	(35,000)
Balance, End of Year	**$114,947**	$ 94,888

See Notes – Pages 12 and 13.

Consolidated Balance Sheet
as at December 31, 1980

Assets

Stated in 000's of Dollars	**1980**	1979 (Restated – Note 6)
Mortgages	**$1,009,359**	$ 878,832
Bonds	**656,160**	614,588
Stocks	**177,983**	123,392
Real Estate	**112,878**	109,586
Cash	**2,890**	4,414
Investment Income, Earned but not yet Received	**36,174**	31,443
Segregated Investments	**901,755**	703,540
Policy Loans	**190,395**	161,187
Premiums in Course of Collection	**49,587**	40,666
Miscellaneous Assets	**26,654**	51,794
	$3,163,835	$2,719,442

Liabilities and Surplus

Policy Reserves (Notes 1(v) and (vi))	**$1,768,686**	$1,555,529
Policy Amounts on Deposit	**108,501**	104,999
Policy Benefits in Course of Payment	**13,734**	13,220
Segregated Investment Funds	**901,755**	703,540
Net Amount Owing to Banks	**8,957**	3,198
Deferred Net Capital Gains (Note 4)	**12,319**	19,804
Provision for Future Taxes (Note 1(vi))	**10,669**	9,516
Other Liabilities	**44,819**	48,820
Additional Reserve Required by Law	**69,448**	79,928
Investment and Contingency Reserve	**110,000**	86,000
Surplus	**114,947**	94,888
	$3,163,835	$2,719,442

See Notes – Pages 12 and 13.

Notes to Consolidated Financial Statements

1. Significant Accounting Practices

The accounting practices and presentation adopted by the Company are based upon those prescribed for purposes of annual filings with the Department of Insurance of Canada. Certain changes in accounting and presentation were adopted in 1980. As described in Note 6, the 1979 comparative figures have been restated accordingly.

The significant practices are described below.

(i) The financial statements are prepared on a consolidated basis to include the operations of the Company's wholly-owned life insurance and real estate subsidiaries.

(ii) Throughout the statements, United States currency is included at the rate of $1.10 Canadian to the U.S. dollar and Sterling currency at $2.40 Canadian to the pound. If current rates of exchange had been used in the Consolidated Balance Sheet there would have been no change in the surplus shown.

(iii) Mortgages and bonds are valued at amortized cost and stocks are valued at cost. Real estate investments are valued at cost less accumulated depreciation. Segregated investments are valued at market.

(iv) As required by the insurance laws of Canada, realized gains and losses on the sale of mortgages and bonds in the life account are deferred and brought into income over the remaining life of the security, but for a period not exceeding 20 years. Realized and unrealized gains and losses on stocks in the life account are deferred and brought into income at the rate of 7% annually, applied to the unamortized balance. Realized gains and losses on real estate, on certain miscellaneous assets, and on all health account investments, are included in income as unusual and extraordinary items.

(v) The policy reserves represent the present value of future policy benefits less premiums, after taking into account related expenses and taxes. These reserves are determined based on assumptions as to future rates of interest, mortality, morbidity, and policy termination, and reflect a reduction for deferred acquisition expenses of $100,130,000.

(vi) Income taxes are provided using the accrual method of tax allocation, and are discounted for interest. The amounts included in the financial statements are as follows:

Stated in 000's of Dollars	**1980**	1979
Consolidated Statement of Operations		
—current and deffered tax cost not related to policy reserves and included in premium and income taxes	**6,546**	6,814
—deferred tax cost (recovery) included in increase in policy reserves	**(1,927)**	4,773
—current and deferred tax recovery related to cost of benefit enhancements	**(3,183)**	Nil
—current and deferred tax cost (recovery) related to other unusual and extraordinary items	**98**	(771)
Consolidated Balance Sheet		
—provision for current taxes included in other liabilities	**8,392**	11,293
—provision for deferred taxes not related to policy reserves and shown as a provision for future taxes	**10,669**	9,516
—provision for deferred taxes included in policy reserves	**3,682**	4,089

2. Investment Gains and Losses

Net Investment Income includes the following amounts:

Stated in 000's of Dollars	**1980**	1979
Amortization of net realized and unrealized gains on stocks	**6,489**	3,864
Amortization of net realized losses on bonds	**(1,473)**	(686)
Realized Gain (loss) on currency exchange	**(508)**	39
Total	**4,508**	3,217

3. Other Unusual and Extraordinary Items

Stated in 000's of Dollars	**1980**	1979
Net realized gains on real estate	**485**	1,533
Net realized losses on health account investments	**(94)**	(92)
Gain on discontinuance of operations in certain Caribbean countries	**Nil**	6,036
Other adjustments	**Nil**	981
Income taxes on foregoing items	**(98)**	771
Recovery of prior years' income taxes	**2,913**	7,482
Total	**3,206**	16,711

4. Deferred Net Capital Gains

Stated in 000's of Dollars	**1980**	1979
Gains on stocks not yet included in income	**32,620**	30,235
Losses on bonds not yet included in income	**(20,301)**	(10,431)
Total	**12,319**	19,804

5. Company Pension Plan

The unfunded liability arising from past improvements in pension benefits amounts to $11,758,414 (1979 – $12,380,291) and is being amortized over approximately 13 years by annual payments of $1,324,946.

6. Accounting Changes and Prior Year Restatements

(i) In prior years the Company accounted for income taxes on the taxes payable basis. In 1980 the Company adopted the practice of accounting for income taxes on the accrual method of tax allocation described in Note 1 (vi). The principal effects of this change in accounting are as follows:

Stated in 000's of Dollars	**1980**	1979
Decrease in:		
Operating income	**2,429**	2,129
Net income	**746**	5,395
Surplus, beginning of year	**8,850**	3,904

(ii) In prior years the Company followed the practice of recording the results of certain non-recurring transactions in the Consolidated Statement of Surplus. In 1980 the Company has adopted the practice of recording such items in the Consolidated Statement of Operations as unusual and extraordinary items. This change in accounting has resulted in a decrease in net income of $2,548,000 (1979 – an increase of $17,444,000).

(iii) The 1979 comparative figures have been restated to reflect the adoption of the changes in accounting described above, and certain additional changes in financial statement presentation, including the following:

– Both premiums and net investment income now combine non-segregated and segregated fund income.

– Other policy payments now include surrender payments and certain other smaller items hitherto shown separately.

– Policy reserves now include the provision for unreported and incomplete claims and the provision for future dividends and experience refunds to policyholders, hitherto shown separately. The increase in these provisions is now included in the increase in policy reserves rather than, as hitherto, as part of policyholder benefits.

– In prior years the net market value gain on segregated investments was credited directly to the liability under segregated investment funds. In 1980 the Company adopted the practice of reflecting such gains in the Consolidated Statement of Operations, with a corresponding adjustment to the increase in segregated investment funds. This change has no effect upon reported net income.

Report of the Valuation Actuary

I have made the valuation of the Policy Reserves of Confederation Life Insurance Company for its Consolidated Balance Sheet as at December 31, 1980 and for its Consolidated Statement of Operations for the year then ended. In my opinion (i) the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries (ii) the amount of the Policy Reserves makes proper provision for the future payments under the Company's policies and contracts (iii) a proper charge on account of those Policy Reserves has been made in the Consolidated Statement of Operations, and (iv) the amount of Additional Reserve Required by Law is proper.

Michael Rosenfelder, F.C.I.A.
Corporate Vice-President
Actuarial, Statements & Taxation

Toronto, Canada,
January 29, 1981

Auditors' Report

To the Policyholders and
Directors of Confederation Life
Insurance Company:

We have examined the Consolidated Balance Sheet of Confederation Life Insurance Company as at December 31, 1980 and the Consolidated Statements of Operations and Surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances; we have relied on the opinion of the Company's Valuation Actuary as to the amount of the Company's Policy Reserves and Additional Reserve Required by Law.

In our opinion, based on our examination and the opinion of the Company's Valuation Actuary, these financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations for the year then ended in accordance with the accounting practices described in Note 1 applied on a basis consistent with that of the preceding year, after giving retroactive effect to the changes in accounting practices and restatements described in Note 6.

Clarkson Gordon
Chartered Accountants

Toronto, Canada,
January 29, 1981

International Sales, Service and Investment

Canada

Calgary, Alta.
Chicoutimi, P.Q.
Edmonton, Alta.
Fredericton, N.B.
Halifax, N.S.
Hamilton, Ont.
Hull, P.Q.
London, Ont.
Montreal, P.Q.
Ottawa, Ont.
Peterborough, Ont.
Quebec City, P.Q.
Regina, Sask.
Saskatoon, Sask.
Sherbrooke, P.Q.
St. Catharines, Ont.
St. John's, Nfld.
Sudbury, Ont.
Trois-Rivières, P.Q.
Thunder Bay, Ont.
Toronto, Ont.
Vancouver, B.C.
Victoria, B.C.
Waterloo, Ont.
Windsor, Ont.
Winnipeg, Man.

United States

Abington, Penn.
Aiea, Hawaii
Akron, Ohio
Altamonte Springs, Fla.
Amarillo, Texas
American Fork, Utah
Ann Arbor, Mich.
Atlanta, Ga.
Augusta, Maine
Aurora, Ill.
Baltimore, Maryland
Beachwood, Ohio
Bellevue, Wash.
Bellmawr, N.J.
Berthoud, Colorado
Beverly Hills, Calif.
Birmingham, Alabama
Bloomfield Hills, Mich.
Bloomington, Minn.
Blue Bell, Penn.
Boca Raton, Fla.
Boston, Mass.
Bothell, Wash.
Brookfield, Wisconsin
Burlington, N.C.
Canton, Ohio
Casper, Wyoming
Chapel Hill, N.C.
Charleston, S.C.
Charleston, W.Virg.
Charlotte, N.C.
Chattanooga, Tenn.
Chicago, Ill.
Cincinnati, Ohio
Cinnaminson, N.J.
Clark, N.J.
Cleveland, Ohio
Clifton, N.J.
Columbia, Maryland
Columbus, Ga.
Columbus, Ohio
Coral Gables, Fla.
Dallas, Texas
Danville, Calif.
Dayton, Ohio
Del Rio, Texas
Denison, Texas
Denver, Colorado
Des Moines, Iowa
Detroit, Mich.
Durham, Texas
East Orange, N.J.
Elkhart, Indiana
El Paso, Texas
Encino, Calif.
Englewood, Colorado
Erie, Penn.
Evanston, Ill.
Fairfield, N.J.
Falls Church, Virg.
Fargo, N. Dakota
Farmington, Mich.
Fayetteville, N.C.
Fort Lee, N.J.
Fort Smith, Calif.
Fort Worth, Texas
Fredericktown, Ohio
Gaithersburg, Maryland
Glenside, Penn.
Grand Junction, Colo.
Greensboro, N.C.
Greenville, S.C.
Hackensack, N.J.
Hanover, N.H.
Harrisburg, Penn.
Hartford, Conn.
Holicong, Penn.
Hollywood, Fla.
Houston, Texas
Howell, N.J.
Jackson, Miss.
Jacksonville, Fla.
Johnstown, Penn.
Kansas City, Mo.
Kennebunkport, Maine
King of Prussia, Penn.
Kosciusko, Miss.
Lakeland, Fla.
La Jolla, Calif.
Las Vegas, Nevada
Laurel, Miss.
Lexington, Kentucky
Lincoln, Nebraska
Livingston, N.J.
Los Angeles, Calif.
Louisville, Kentucky
Lubbock, Texas
Lynchburg, Virg.
Madison, Wisconsin
Marietta, Ga.
Marina Del Ray, Calif.
Medina, Ohio
Memphis, Tenn.
Menominee, Mich.
Miami, Fla.
Midlothian, Virg.
Milwaukee, Wis.
Minneapolis, Minn.
Montclair, N.J.
Monterey, Calif.
Montgomery, Ala.
Moorhead, Minn.
Morristown, N.J.
Mountainside, N.J.
Nashville, Tenn.
N. Charleston, S.C.
New Bern, N.C.
Newhall, Calif.
New Orleans, La.
Newport Beach, Calif.
Norristown, Penn.
Northfield, Ill.
Oklahoma City, Okla.
Omaha, Neb.
Orlando, Fla.
Pasadena, Calif.
Peoria, Ill.
Pepper Pike, Ohio
Philadelphia, Penn.
Phoenix, Arizona
Pittsburgh, Penn.
Pompton Lakes, N.J.
Pompton Plains, N.J.
Portland, Oregon
Portsmouth, Virg.
Providence, R.I.
Radnor, Penn.
Raleigh, N.C.
Reno, Nevada
Richmond, Virg.
Ridgewood, N.J.
Roanoke, Virg.
Sacramento, Calif.
San Antonio, Texas
San Diego, Calif.
San Francisco, Calif.
San Jose, Calif.
San Leandro, Calif.
San Mateo, Calif.
Santa Ana, Calif.
Santa Clara, Calif.
Santa Monica, Calif.
Sarasota, Fla.
Savannah, Ga.
Scranton, Penn.
Seattle, Wash.
Severna Pk., Maryland
Sherman Oaks, Calif.
Silver Spring, Maryland
Southampton, Penn.
Southfield, Mich.
Spartanburg, S.C.
St. Cloud, Fla.
St. Louis, Mo.
Studio City, Calif.
Summerville, S.C.
Tampa, Fla.
Teaneck, N.J.
Tempe, Arizona
Tigard, Oregon
Timonium, Maryland
Toledo, Ohio
Troy, Mich.
Tulsa, Okla.
Vienna, Virg.
Walnut Creek, Calif.
Washington, D.C.
Wayzata, Minn.
West Bloomfield, Mich.
West Covina, Calif.
Wexford, Penn.
Wichita, Kansas
Wilmington, Delaware
Winston-Salem, N.C.
Winter Haven, Fla.
Woodstock, Ga.
Worcester, Mass.

Puerto Rico

Bayamon
Caguas
Ponce
San Juan
Santurce

Eastern Caribbean

Bridgetown (Barbados)
Castries (St. Lucia)
Kingstown (St. Vincent)

Dominican Republic

Santiago
Santo Domingo

United Kingdom

Belfast
Birmingham
Brighton
Bristol
Cardiff
Edinburgh
Glasgow
Ipswich
Leeds
Liverpool
London
Manchester
Newcastle
Nottingham
Plymouth
Preston
Reading
Romford
Sheffield
Southampton
Swansea

Confederation Life
With you when it counts...

Confederation Life provides insurance protection and services to millions throughout Canada, the United States and the Caribbean, and in the United Kingdom. It is the welfare of these clients that is important and when the need arises, Confederation Life people are there when it counts—to help out—to assist those in need to pick up the pieces and continue with their lives.

When disaster struck a small Quebec mining community on New Year's Eve, 1979, Confederation Life was there to help. A pile of rubble was all that remained of the social club in Chapais, Quebec after a tragic fire which took the lives of 47 townspeople. Twenty-one of those killed were covered by Confederation Life group policies. Within days a representative from the Company was on the scene—delivering cheques and providing much needed encouragement to survivors.

Statistics on widows tell a bleak story of poverty, loneliness and dislocation, but Nancy Roth knows life insurance can change all that. When her husband died suddenly at 39, leaving her to raise two teenaged daughters alone, life insurance and her Confederation Life representative stood by her. "Life insurance lifted a great burden off my shoulders. Life insurance made it easier for the three of us to live through the tragedy by not having to change our lifestyle or lose the comfort of living in our own home."

Confederation Life's rehabilitation services help people like Colleen Herbin to re-adjust to a new life. When Collen was confined to a wheelchair after a disabling motorcycle accident several years ago, money was the least of her worries. Confederation Life replaced her lost income through her company's group insurance policy. Then a Confed Rehabilitation Councillor assisted her in setting up a telephone answering service in her home. Business is booming and Colleen is busy, happy and—best of all—independent.

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